

SIXTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



Senate
Office of the Secretary

13 JUL -1 P1:18

SENATE

S.B. No. 106

RECEIVED BY: *ja*

Introduced by Senator LOREN LEGARDA

EXPLANATORY NOTE

Section 9 Article II of the Constitution provides that the State shall free the people from poverty through policies that provide adequate social services, promote full employment, a rising standard of living, and an improved quality of life for all. Republic Act No. 8425, otherwise known as the "Social Reform and Poverty Alleviation Act", points to the institution of the expansion of micro-credit and microfinance services as one of the fundamentals in eradicating poverty in the country.

The bill seeks the creation of micro-enterprise development institutions to expand, enhance and promote the access of the poor to microfinance services such as credit, insurance, savings and health care, enabling them to operate their own productive economic opportunities.

To encourage the expansion of services of the micro-enterprise development institutions, the proposed measure provides that they shall be exempted from national and local taxes. In lieu of this exemption, they shall be subject to a tax of 2% of their gross income as contribution to the People's Development Trust Fund created and established under the "Social Reform and Poverty Alleviation Act".

Recognizing the enormous contribution of microfinance services in the fight against poverty, it is high time that the national government create an enabling environment for the promotion, broadening and enhancement of such services to the poor population. It is the intent of the measure to institute micro-enterprise development to accelerate socio-economic progress.

In view of the foregoing, the passage of this bill is earnestly sought.


LOREN LEGARDA
Senator

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SENATE

S.B. No. 106

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Introduced by Senator LOREN LEGARDA

AN ACT
GOVERNING THE CREATION AND ACCREDITATION OF MICRO-
ENTERPRISE DEVELOPMENT INSTITUTIONS, AND FOR OTHER PURPOSES

*Be it enacted by the Senate and the House of Representatives of the Philippines in
Congress assembled:*

1 **Section 1. Title.** This Act shall be known and cited as the "Micro-Enterprise
2 **Development Institution Act of 2013."**

3

4 **Section 2. Declaration of Policy.** It is hereby declared the policy of the State
5 to pursue a more focused program of poverty eradication wherein every poor
6 Filipino family shall be empowered to meet its minimum basic needs including
7 income security.

8

9 In pursuance of this policy, the government shall work in partnership with
10 qualified institutions in the private sector for the poor to have more access to micro-
11 finance, micro-insurance, micro-health care, micro-housing, business development,
12 such as leadership training and entrepreneurial skills training, and human
13 development services to help the poor entrepreneurs achieve a level of sustainability
14 and empowerment and adopt measures to promote a spirit of generosity and selfless
15 giving among individuals and institutions that would help support all programs
16 directly involved in poverty eradication.

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18 **Section 3. Coverage.** The Act shall apply to non-stock, non-profit Micro-
19 Enterprise Development Institutions whose mission is totally focused on poverty
20 eradication, and are duly accredited by the Securities & Exchange Commission
21 (SEC), as the accrediting entity, and registered with the Bureau of Internal Revenue
22 (BIR).

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Section 4. Definition of Terms. For purpose of implementing this Act, the following definitions shall apply:

- a) "Micro-Enterprise Development Institutions (MEDI)" - refers to a non-stock, non-profit corporation organized and operated to provide Micro-Enterprise Development Strategy, as defined in letter (b) hereof, through the broad package of financial and human development services as well as other business development services to the poor to enable them to operate their own productive economic activities; provided, no part of the net of income of the MEDI inures to the benefit of any private individual, and the administrative expenses of which, on an annual basis, conform with the rules and regulations to be prescribed by the Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, but in no case to exceed thirty percent (30%) of the total expenses;
- b) "Micro-Enterprise Development Strategy" - a social reform program exclusively for the poor to improve the asset base of households and expand the access to micro-finance services, such as micro-credit, micro-insurance, micro-savings and micro-health care for the poor through the broad package of business development services and other non-financial services as well as to the poor to enable them to operate their own productive economic activities;
- c) "Poor" - refers to individuals and families whose income fall below the poverty threshold as defined by the National Economic and Development Authority and/or cannot afford in a sustained manner to provide their minimum basic needs of food, health care, education, housing and other essential amenities of life;
- d) "Social Reform" - refers to the continuing process of addressing the basic inequities in Filipino society through a systematic, unified and coordinated delivery of socio-economic programs or packages;
- e) "Utilization" by an accredited MEDI - shall refer to:

- 1 i) Any amount in cash or in kind, including administrative expenses,
2 paid or utilized by an accredited MEDI to accomplish one or more
3 purposes for which it was created or organized; or
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- 5 ii) Any amount paid to acquire an asset used, or held for use, directly
6 in carrying out one or more purposes for which the accredited
7 MEDI was created or organized; or
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- 9 iii) Any amount in cash or in kind invested in any poverty eradication
10 activity related to the purpose for which it was created or
11 organized; or
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- 13 iv) Any amount set aside for a specific project which comes within one
14 or more purpose or purposes for which the accredited MEDI was
15 created, provided that the amount will be utilized for specific
16 project within a period not to exceed five (5) years, and the project
17 is the one which can be better accomplished by setting aside such
18 amount than by immediate payments of funds;
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- 20 v) Any amount in cash or kind invested in capital sustaining and
21 generating activities, such as but not limited to, government
22 securities, endowment funds, trust funds, money market
23 placements, shares of stock and similar instruments: Provided, that
24 any income derived from these investments shall be exclusively
25 used in activities directly related to one or more purposed for
26 which the accredited MEDI was created or organized.
- 27 vi) “Accrediting Entity” - shall refer to the Securities & Exchange
28 Commission (SEC) and the Bureau of Internal Revenue (BIR), the
29 regulatory powers of which shall be defined in the implementing
30 rules and regulations of this Act.
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32 **Section 5. Form of Organization.** A MEDI as defined in Section 4 (a) shall
33 be established as a non-stock non-profit corporation.
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1 **Section 6. Capital Requirements.** A MEDI shall have a fund balance of not
2 less than Fifty Million Pesos (P50,000,000.00).

3 **Section 7. Supervision and Accreditation.** The Accrediting Entity established
4 under this Act shall establish and operationalize a system of accreditation to
5 determine the qualifications of the MEDI. It shall have the following functions and
6 responsibilities:

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8 a) Examine, evaluate and accredit the MEDI as a pre-requisite for its registration
9 with the BIR for purposes of tax exemption under this Act.

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11 b) Issue a Certificate of Accreditation to the MEDI upon determination that it
12 meets the criteria for accreditation; Provided, that the Certificate of
13 Accreditation shall be valid for such period as may be prescribed by
14 implementing rules and regulations'

15 c) Review and deny the application of any MEDI, which does not meet the
16 criteria for accreditation. The MEDI shall be notified of the denial of its
17 application, the reasons therefore, and the evaluators' recommendation in
18 order that the MEDI may meet the criteria for accreditation. The procedure
19 for reconsideration of and/or effecting any corrections amendments to the
20 application shall be provided in the implementing rules and regulations of
21 this Act.

22 **Section 8. Monitoring and Verification of Annual Information Return.** The
23 Accrediting Entity shall monitor the MEDIs and coordinate to ensure that the
24 provisions of this Act are complied with.

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26 **Section 9. Withdrawal of Certificate of Accreditation and Revocation of the**
27 **Certificate of Registration.** - The Accrediting Entity shall have the authority to
28 withdraw the Certificate of Accreditation, which it used to register the MEDI upon a
29 determination that the latter no longer meets the criteria for accreditation under
30 Section 7 of this Act.

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32 **Section 10. Exemption from the National and Local Taxes.** No taxes, local
33 and national, shall be imposed on MEDIs duly accredited by the Accrediting Entity

1 and registered with the BIR. In lieu thereof, two percent (2%) of the gross income
2 derived by the MEDIs shall be remitted to the National Government. This two
3 percent(2%) tax shall be entirely contributed to the People's Development Trust
4 Fund established under Republic Act No. 8425 otherwise known as the "Social
5 Reform and Poverty Alleviation Act". In addition, borrower of the MEDIs shall not
6 be subject to the documentary stamp tax imposed under Section 179 of the Tax
7 Code, as amended.

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9 The term "gross income" means gross receipts less sales returns, allowances,
10 discounts and other costs of services. Interest expenses of a MEDI shall be
11 deductible from gross receipts as part of cost of services in arriving at gross income.
12 The term gross income shall exclude donations.

13
14 **Section 11. *Deductibility of Donations.*** Donations to a MEDI shall be fully
15 deductible from the gross income of the donor and shall be exempt from donor's tax
16 imposed under Sec. 98 of the Tax Code.

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18 **Section 12. *Implementing Rules and Regulations.*** The SEC, in coordination
19 with the BIR, shall formulate the implementing rules and regulations of this Act
20 within sixty (60) days after its approval. Such rules and regulations shall take effect
21 fifteen (15) days after their publication in a newspaper of general circulation in the
22 Philippines.

23 **Section 13. *Separability Clause.*** If any provision of this Act or the
24 application thereof to any person or circumstances is held invalid, the other
25 provisions of this Act and the application of such provisions to other persons or
26 circumstances shall not be affected thereby.

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28 **Section 14. *Repealing Clause.*** All internal revenue issuances, rules and
29 regulations, or parts thereof, which are contrary to or inconsistent with this Act are
30 hereby repealed, amended or modified accordingly.

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32 **Section 15. *Effectivity.*** This Act shall take effect upon its approval.

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34 Approved,